

# FISCAL NOTE

**Bill #:** SB0354 **Title:** Prison industry low-income housing program  
**Primary Sponsor:** Bohlinger, J **Status:** As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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## Fiscal Summary

	<b><u>FY 2004 Difference</u></b>	<b><u>FY 2005 Difference</u></b>
<b>Expenditures:</b>		
Other	\$919,768	\$831,068
<b>Revenue:</b>		
Other	\$942,060	\$942,060
<b>Net Impact on General Fund Balance:</b>	\$0	\$0

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Significant Local Gov. Impact | <input type="checkbox"/> Technical Concerns                       |
| <input type="checkbox"/> Included in the Executive Budget         | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached          | <input type="checkbox"/> Needs to be included in HB 2             |

## Fiscal Analysis

### ASSUMPTIONS:

#### **Department of Corrections**

1. A new enterprise fund (06XXX) will be established under Section 4, pursuant to 17-2-102(2). All revenues and expenditures associated with the Prison Industry Factory-Built Modular Home Program will be tracked through this fund.
2. MCE will secure a start-up loan from the Department of Commerce, Board of Housing (BOH). The startup loan payback is included in the price of the house. The amount for payback is \$3,700 per house, based on 30 houses per year. Proceeds received by the Department of Corrections, Montana Correctional Enterprises (MCE) from the sale of the factory-built modular homes will be used to purchase materials needed for the production of the home, reimburse the board for the loan, and provide continued financial support for the program.
3. The homebuyers would be responsible for hiring independent contractors to provide site preparation for the home site. Site preparation will include a foundation and utility work at a minimum. Site preparation may include the addition of porches, garages, sidewalks, basements, and decks.
4. The homebuyer will be responsible for the purchase of floor coverings, window coverings and all appliances.
5. The homebuyers are responsible for the maintenance of the factory built home, as well as the payment of all insurance premiums, utility assessments, and property tax assessments.

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6. Department of Commerce BOH would be responsible for the marketing, sales, loan coordination and delivery of all homes built by the Prison Industries factory-built home program.
7. Department of Corrections, MCE will be responsible for all aspects of the production of the factory-built home program. This will include the supervisors, inmates and security.
8. MCE will establish a mechanism to provide any needed warranty work to the finished houses, once they are on the location site.
9. MCE would hire the following civilian employees to provide the needed FTEs for the factory-built home program: Journeyman carpenter, electrician and plumber, as well as a general supervisor. It is estimated that the cost of the 4.00 FTE would be approximately \$168,618 per year including benefits, using the statewide classification pay schedule. MCE would also need to have approximately thirty to forty inmates working, at an additional annual cost of \$48,000.
10. Once a factory-built modular home is complete, Department of Commerce BOH and the homebuyer will make arrangements with an independent house mover to transport the completed home to the prepared site, and provide the needed setup.
11. The BOH would ask MCE to build houses equivalent in size to those being produced by the South Dakota Department of Corrections, in conjunction with the South Dakota Housing Authority. Those houses are 24' x 40' for a total of 960 square feet. The houses are built in one piece, and transferred to the site as such.
12. It is the assumption of MCE that BOH would ask for the following specifications on the factory-built homes: 2" x 6" exterior wall construction, R19 insulation, vinyl lap siding, vinyl windows with insulated glass, asphalt shingles, oak kitchen and bathroom cabinets, electric or gas forced air heat, electric hot water heater, 1/2" sheetrock on all interior walls, 5/8" sheetrock on exterior walls and ceilings, taped and textured walls, and painted interior. All houses would meet the construction requirements set forth by the Department of Commerce Building Codes Bureau.
13. The advisory board established in Section 6 would meet at the Montana Correctional Enterprise location in Deer Lodge on a bi-annual basis. Pursuant to 2-18-501 through 2-18-503, MCA, the members are to be reimbursed by Department of Corrections MCE for expenses incurred to attend the meeting. Expenses for each meeting are estimated at \$500, and are included in the administration costs shown in #17 of this fiscal note.
14. MCE would be responsible for the application process and following guidelines of the Factory-Built Building Program, monitored by the Department of Commerce Building Codes Bureau.
15. In summary, the following agencies or people would be responsible for the different aspects of the factory-built home program:
  - Department of Commerce BOH: Marketing, sales, coordination with homebuyer for purchase of lot, preparation of lot and purchase of items needed for completion of home (e.g., floor and window coverings, appliances), house delivery, and securing of the loan
  - Department of Corrections MCE: Approval of housing plans with Department of Commerce Building Codes Bureau, house insignias, and production of the 960 square foot house
  - Department of Commerce Building Codes Bureau: House inspections (five per house) as outlined in the Factory Built Building Program.
  - Home Buyer – Selection of the lot location and the contractor to provide site preparation and utility work; purchase of floor and window coverings and appliances; and coordination with insurance company and county appraiser for tax purposes.
16. MCE has provided costing, assuming that in the first two years of the process approximately thirty factory built homes could be completed per year. All costs are estimated and based on this assumption. If additional houses are built per year, the fixed costs will be spread over more homes, allowing the cost of the home to decrease. In the same manner, if there is an increase in the price of building materials, or

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other operating costs such as utilities and personal services, the price of the house may increase. The costing estimate is using the assumption that all things will remain relatively status quo for the first two years.

17. The following costs are associated with the production of the thirty homes per year. The second column allocates these costs to each home, based on 30 homes produced each year. Four of the categories are per house costs.

	<u>Total Annual Cost</u>	<u>Per House Cost</u>
Civilian FTE (plumber, electrician and supervisors)	\$ 168,618	\$ 5,620
Administration	\$ 29,750	\$ 992
Inmate Labor	\$ 48,000	\$ 1,600
Utilities	\$ 18,000	\$ 600
Repair and Maintenance	\$ 15,000	\$ 500
Warranty – per house		\$ 500
Building materials – per house		\$ 17,600
Insignia – per house		\$ 40
Other supplies – per house		\$ 250
Total Cost Per House, Based on 30 houses per year		\$ 27,702
Loan Repayment		\$ 3,700
Total Cost of House to Department of Commerce BOH		<u>\$ 31,402</u>

18. All building materials needed for the purchase of the factory built homes would be purchased from vendors using the guidelines of the Montana Department of Administration Procurement Procedures outlined in Title 18, Chapter 4, MCA.
19. Startup costs for the Prison Industry low-income housing program are estimated at \$88,700. This total includes the purchase of equipment and tools as well as the preparation for the factory-built modular home production site.
20. Revenue calculation is \$31,402 per home \* 30 homes = \$942,060 per year.

**Department of Commerce**

21. SB 354 establishes a Prison Industries Factory-Built Modular Home Program and extends duties of the Board of Housing to include participation in the prison industries program.
22. Affordable, energy efficient factory-built modular homes, built by the prison industries program would be sold by the Board of Housing to eligible low-income families through the board's various loan programs. There is no fiscal impact to the Board of Housing or the Department of Commerce.

**FISCAL IMPACT:**

	<u>FY 2004 Difference</u>	<u>FY 2005 Difference</u>
<b>Department of Corrections (30 houses/year)</b>		
FTE	4.00	4.00
<u>Expenditures:</u>		
Personal Services (FTE)	\$168,618	\$168,618
Personal Services (Inmate Payroll)	48,000	48,000
Operating Expenses	614,450	614,450
Equipment	<u>88,700</u>	<u>0</u>

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TOTAL	\$919,768	\$831,068
<u>Funding of Expenditures:</u>		
MCE Modular Home Proprietary Fund (06XXX)	\$919,768	\$831,068
<u>Revenues:</u>		
MCE Modular Home Proprietary Fund (06XXX)	\$942,060	\$942,060
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
MCE Modular Home Proprietary Fund (06XXX)	**\$22,292	**\$110,992

\*\*Used to pay the startup loan from the Department of Commerce Board of Housing

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Local economies impact:

- Contractors – Site preparation, utility work, additions of garages, sidewalks, basements, and decks.
- Real Estate agents – Sale of lots
- Business Owners - Sale of window coverings, floor coverings and appliances
- House Movers – Movement of house from prison location to residence location
- Insurance Agent – Insurance on the residence
- Utility companies – Electric, natural gas, water, and sewer
- County of Residence – Annual property tax revenues

In addition, there is the purchase of building materials and miscellaneous supplies from the vendor(s). MCE does not have the ability to estimate the revenues associated with each of these items, as they will fluctuate from community to community.

LONG-RANGE IMPACTS:

1. At some time in the future, MCE would need to build a warehouse to house the building material inventory. It is anticipated that the warehouse would be built after the loan received from the BOH is paid in full.
2. Inmates will have the opportunity for training and experience in a field that they may pursue after release from prison. Inmates who have learned skills and work ethics through prison work programs have had a lower recidivism rate of approximately 13 percent in Montana.